

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL FOR UMHLABUYALINGANA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Umhlabuyalingana Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's as set out on pages XXX to XXX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of Municipal Finance Management Act (Act no. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of Umhlabuyalingana Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Fruitless and wasteful expenditure

9. As disclosed in note 24, Fruitless and wasteful expenditure to the amount of R5 472 925 which was incurred in the prior year was still in the process of being recovered at 30 June 2011.

Irregular Expenditure

10. As disclosed in note 25, Irregular expenditure to the amount of R1 552 858 was incurred as a result of expenditure incurred without following the Supply chain Management regulation (SCM) process in inviting and evaluating bids, contrary to Treasury Regulation 36(1)(a).

Restatement of corresponding figures

11. As disclosed in note 7, to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 30 June 2011 in the financial statements of Umhlabuyalingana Municipality at, and for the year ended 30 June 2010.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives**Presentation of information**

15. The following criteria was used to assess the presentation of performance information:
- Performance against predetermined objectives is reported using the National Treasury guidelines
16. The following audit finding relate to the above criteria:
- The performance targets that were formulated by management did not meet the criteria issued in the Framework for the Managing of Performance Information by National Treasury.

Usefulness of information

17. The following criteria was used to assess the usefulness of performance information:
- Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time-bound

- Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets
- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents

18. The following audit finding relate to the above criteria:

- Section 46 (1) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) states, inter alia, that the municipality must compile a report on the achievement of its performance objectives as recorded in the Integrated Development Plan and Service Delivery and Budget Implementation Plan. Information contained in the draft annual report was inconsistent with information contained in the Service Delivery and Budget Implementation Plan and Integrated Development Plan contrary to section 46(1) of the Municipal Systems Act.

Reliability of information

19. The following criteria was used to assess the reliability of performance information:

- Validity: Actual reported performance has occurred and pertains to the entity
- Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report

20. The following audit finding relate to the above criteria:

- Adequate measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total 56% of the reported targets where improvement is required was not explained. Furthermore, corroborating evidence provided as a basis for the measures taken to improve performance between the planned and the actual reported targets did not agree in 25% with the measures taken to improve performance reported.

Compliance with laws and regulations

Procurement and contract management

21. The municipality incurred irregular expenditure of R1 552 858 as the expenditure incurred was in contravention of Municipal Supply Chain Management Regulations 36(1)(a) relating to supply chain management.

22. The municipality had contravened the provisions of the Municipal Finance Management Act, section 62(1) paragraph (b) and (f) by not adopting the following policies as at 30 June 2011:

- Revenue Management
- Asset Management
- Supply Chain Management
- Investment and cash management
- Rates
- Credit control and debt collection
- Tariff
- Information technology
- Performance Management

23. The financial statements submitted for audit did not comply with section 122(1) of the MFMA. Material misstatements were identified during the audit, these were corrected by management.

INTERNAL CONTROL

24. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

25. Management have not exercised oversight responsibility over financial reporting and internal control in that actions were not taken to address risks relating to the achievement of complete and accurate financial reporting and reporting on predetermined objectives.

Financial and performance management

26. Management did not review and monitor compliance with applicable laws and regulations.
27. Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

28. Appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, were not conducted and a risk strategy to address the risks was not developed and monitored.

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence